

City of Alexandria, Virginia

MEMORANDUM

DATE: FEBRUARY 5, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: CONSIDERATION OF GRANT AND LOAN ALLOCATIONS FROM THE HOUSING TRUST FUND TO FACILITATE THE REOPENING OF GUEST HOUSE

ISSUE: Allocation of Housing Trust Fund monies to support the reopening of Guest House at 1 East Luray Avenue (the "Property") in Alexandria.

RECOMMENDATION: That City Council approve the allocation of \$140,400 from the Housing Trust Fund to Guest House, as follows:

1. A grant of \$41,000 to include:
 - a. \$23,000 to pay for materials used by Habitat for Humanity in renovating the Property; and
 - b. \$18,000 for a new security system, contingent upon approval by the State Board of Corrections of Guest House's plan to substitute this system for certain staff, with the understanding that, if such approval is not obtained, some or all of these monies may be used for rehabilitation material in excess of \$23,000.
2. A secured, no-interest, 99-year deferred payment loan of \$99,400 to retire the first trust mortgage on the Property, subject to the following conditions:
 - a. Guest House may not add any additional debt secured by the Property unless it is specifically for the purpose of capital improvements on the Property, including soft costs.
 - b. Cumulative additional debt secured by the Property greater than \$50,000 will require City administrative approval.
 - c. If Guest House ceases operations¹ at the Property without opening another facility in Northern Virginia, the City or its designee has the option to purchase the Property for the portion of the property's current secondary financing (\$80,000) then outstanding (if any), plus any new debt secured by the Property that is consistent with the terms of this award, plus \$25,000. In the event the Property is purchased pursuant to this provision, the City would forgive the \$99,400 loan.

¹ As defined on page 3 of this memorandum.

- d. If Guest House ceases operations at the Property and the City does not exercise the option to purchase the Property (if it exists), Guest House will repay the City's \$99,400 loan.

BACKGROUND: The Friends of Guest House, Inc. (Guest House) is a 501(c)(3) non-profit organization that since 1973 provided affordable transitional housing and supportive services (including counseling and job search skill development) in a group home setting to non-violent female ex-offenders who were referred by the courts as an alternative to incarceration, who were on probation or who were released from prison. The Guest House facility, located at 1 East Luray Avenue, serves women from the City and other Northern Virginia jurisdictions (primarily Arlington, Fairfax, Loudoun and Prince William Counties. In the past, clients received an average of 90 days of residential assistance and six-months of aftercare services.

The facility closed to clients in February 2003 because a negative audit by the Virginia Board of Corrections caused that agency to suspend its referral of clients to the program. Before ceasing operations, the former Board of Directors borrowed funds through a first trust mortgage on the property to cover budget shortfalls. The current mortgage balance is \$99,400, and the property's assessed value in 2003 was \$430,000. In addition to the first trust, there is a City second trust of \$55,000 reflecting a Community Development Block Grant (CDBG) loan, and another trust reflecting a \$25,000 Old Presbyterian Meeting House loan, neither of which requires repayment unless Guest House no longer uses the property for its original purpose.

DISCUSSION: In June 2003, the Affordable Housing Advisory Committee, at staff's recommendation, denied a request from Guest House for a grant of \$280,000 from the Housing Trust Fund to hire staff, to purchase drug and alcohol testing equipment, to provide medical, transportation and wardrobe assistance to clients and to repay the first trust mortgage. Staff recommended denial due to concerns about the financial viability of the program, including the applicant's failure to articulate how it planned to overcome the deficiencies that led to the program's closure, and to the fact that the City was being asked to support 100% of the program costs for a regional program.

Since that time, Guest House has undergone a significant reorganization, including the addition of many new board members, and has developed plans to re-open the facility in March 2004 with an all new staff and a reduced budget. The current application is superior to the previous one in that it evidences a reasonable plan of action for reopening the facility, and does not depend entirely on financing from the City.

The new application contains written confirmation that the Virginia Board of Corrections is satisfied with the measures taken to correct deficiencies and will refer clients and pay the same \$35 per diem as before. The Property is currently being rehabilitated with volunteer labor provided by Habitat for Humanity. Arlington County has agreed to provide a grant of \$40,000 to fund operating expenses for FY 2004, with the understanding that future allocations will be contingent upon obtaining funding from other participating jurisdictions as well. According to a

separate application to the City's Community Partnership Fund, Guest House has applied for FY 2005 operating funds from the Alexandria Community Partnership Fund for \$31,800. It also has applied for operating funds from Arlington County (\$30,900), Fairfax County (\$15,000), Prince William County (\$10,500) and private donors (\$15,036). Guest House estimates \$79,800 in FY 2005 revenue from the State per diem. Although Guest House is still requesting that the City pay the full cost of eliminating the current first mortgage, the board is committed to fund-raising efforts and contributions to eliminate an additional \$75,000 in unpaid obligations.

The recommended grant of \$23,000 for rehabilitation materials and \$18,000 for a security monitoring system was approved by the Affordable Housing Advisory Committee (AHAC) on December 4, 2003. The rehabilitation began in November 2003, and this allocation will cover both prior and future costs incurred for materials used by Habitat volunteers. The security monitoring system is designed to monitor residents' comings and goings in a way that eliminates the need for 24-hour awake staff, and is a key component of the new board's budget reduction measures. Guest House is currently seeking the required Board of Corrections approval for the elimination of 24-hour awake staff, and the award of these funds will be contingent on this approval. However, subsequent to the AHAC action, Guest House requested that, in the event this approval is not obtained, this amount be made available to them for rehabilitation materials expenses in excess of the requested \$23,000, and the staff recommendation reflects this request.

Although staff initially recommended only partial funding of the requested \$99,400 for mortgage reduction, AHAC at its January 8 meeting developed and approved an alternative recommendation, which staff now supports, to provide the full amount with a stipulation that, should Guest House cease to operate (as defined below), the City or its designee (e.g., the planned new housing corporation) will have the right to purchase the property for \$25,000 more than its outstanding debt (at a minimum, the \$55,000 CDBG debt and the \$25,000 debt to Old Presbyterian Meeting House). The Committee also placed limits on the type and the amount of additional debt that may be placed on the Property in the future, as outlined in the recommendation. For the purpose of this allocation, "cease to operate" shall mean either a decision by the Guest House board to close the facility, or operation of the facility at less than 25% of capacity for any 12 months in an 18 month period, not including an initial lease period of four months or any period during which the facility is closed for rehabilitation.

While the City would be providing the majority of the funds needed to reopen the facility, Guest House's budget reductions, which are critical to the successful future operation of the facility, are dependent on having no debt service payments. In light of Arlington's agreement to fully fund projected operations for the last few months of FY 2004, the Guest House board's commitment to eliminating other outstanding obligations with private funds, and the board's use of volunteer labor from Habitat for Humanity to minimize rehabilitation costs, staff believes the recommended funding is a reasonable commitment of City monies, particularly taking into account the opportunity to acquire the property at a bargain price for affordable housing use in the event Guest House should cease to operate in Northern Virginia.

The Guest House application is available for review in the Office of Housing.

FISCAL IMPACT: Expenditure of up to \$140,400 in Housing Trust Fund monies.

STAFF:

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